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January 19, 2011

TO: William T Fujioka
Chief Executive Officer

FROM: Sachi A. Hamai 
Executive Officer

SUBJECT: WALL STREET JOURNAL ARTICLE RELATING TO
CITY OF VALLEJO BANKRUPTCY EXIT PLAN

At the Board of Supervisors' meeting held January 18, 2011, Supervisor Antonovich requested you to report to the Board on a Wall Street Journal article relating to a bankruptcy exit plan being submitted to a Federal judge this week by the City of Vallejo.

Enclosed are copies of the Wall Street Journal article and the transcript from the January 18, 2011 Board meeting to assist you in preparing your report.

SAH:ct

Enclosures

c: Each Supervisor

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THE WALL STREET JOURNAL.
WSJ.com

U.S. NEWS | JANUARY 18, 2011

City Drafts Bankruptcy Exit

Vallejo's Cuts to Pensions and Benefits Viewed as Vital Lesson Plan

By **BOBBY WHITE**

The city of Vallejo, Calif., is submitting a plan to a federal judge this week to steer itself out of California's largest municipal bankruptcy in a decade.



Bloomberg News

Vallejo's 2008 municipal bankruptcy was California's largest in a decade, after Orange County's filing in 1994.

The scaled-down employee benefits and pensions included in the city's proposal are being closely watched by many municipalities whose budgets have been pressured by rising costs and declining revenues as a result of the recession.

"Vallejo is an example of how compensation and benefits had been part of the politics of the city and it ultimately got the city in trouble," said Charlie Long, former city manager of nearby Fairfield, Calif. How Vallejo addresses those issues are "a vital lesson that a lot of people are paying attention to."

In 2008, after three consecutive years of budget shortfalls that depleted the city's cash reserves, Vallejo filed for Chapter 9 bankruptcy protection. It is the second largest municipal bankruptcy

filing in California, trailing only Orange County, which sought bankruptcy protection in 1994.

Vallejo, located about 30 miles northeast of San Francisco, had been saddled by costly labor contracts with its police and fire unions. The unions' salary and benefits took up about 80% of the city's budget, which for the current fiscal year ending on June 30 is about \$60 million.

Over the last two years, Vallejo has been striving for better fiscal shape. In 2009, city leaders reached new contract agreements with the police, fire and management unions that reduced pension benefits for new employees, among other cuts. Last year, the city reached similar agreements with the union representing maintenance workers. Health-care benefits for the municipality's 400 retirees and surviving spouses are also scheduled to shrink —to \$300 a month, down from the \$1,500 a month that some currently receive.

The city's proposal will be reviewed by Judge Michael McManus of U.S. Bankruptcy Court in the Eastern District of California. Under the plan, Vallejo plans to defer debt repayments from its unrestricted general fund until 2013. While the city owes more than \$50 million, it has just \$5 million in its coffers to pay back creditors, said Susan Mayer, Vallejo's assistant finance director.

The plan also includes continuing with other cutbacks, such as maintaining the city's current work force, which is

supported by the general fund budget, at 312 employees, down nearly 40% from 2004. The city also is aiming to establish a 5% cash reserve of general fund revenue, or about \$3.4 million, by 2015.

Marc Levinson, a bankruptcy attorney representing Vallejo, said the city expected legal challenges from some creditors, but he added the city was confident it would prevail. Since 2008, more than 1,000 claims for payment have been filed with the bankruptcy court. Mr. Levinson said the bankruptcy judge would likely force some creditors to accept the city's plan or risk no repayment.

Submission of the plan is the last step before the city of 120,000 can start to emerge from bankruptcy, which Mr. Levinson says could commence as early as this summer.

"It's a major step forward for us," said Stephanie Gomes, a Vallejo city council member.

Write to Bobby White at bobby.white@wsj.com

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